OFFICE OF THE
ARIZONA STATE TREASURER

HON. DEAN MARTIN
TREASURER

November 30, 2007

Dear Investor

I'm writing to inform you of some good news that affects your investments with the Arizona Treasurer's Office.

Management Fee Reduced

I am very proud to announce that we are delivering on my promise to lower management fees to our customers. As of November 1, 2007, management fees have been reduced by 25%. From 8 basis points on your average daily balance each month to 6 basis points. This change will be reflected on your next statement.

Further, the Joint Legislative Budget Committee on November 20, 2007, approved our request to convert the funding of the Treasurer's Office to self-funding out of earnings and eliminate management fees completely. This will again result in lower costs to you, our investors. You will no longer pay an arbitrary management fee, but a pro-rata share of the office's expenses based on investments held in the various investment pools. Once implemented this will again lower the cost of investing with the Treasurer's office by approximately another 25%; increasing net yields to all investors.

A statutory change in the upcoming session is required before this conversion can take place. We will continue to keep you informed of these developments as the session progresses during our quarterly investor meetings, emails, and letters.

Credit Crunch Update/Developments

As I mentioned in the last quarterly meeting, our portfolio managers have been reducing risk in the various investment pools long before the current credit crunch began this summer. Our investment philosophy is "Safety before Liquidity before Yield". When I took office in January our portfolio managers began an intensive scrubbing of our portfolios to eliminate any non-conforming exposure. This scrubbing was completed in May, long before the Credit Crunch began.

Unlike several Local Government Investment Pools across the country recently in the news, we have *never* purchased any investments linked to Structured Investment Vehicles (SIVs or so-called SIV-lites) nor does the portfolio contain any investments dependant on sub-prime mortgages for re-payment. As you know, many of these investments are now non-performing and incurring losses for investors. Because we avoided these products, we will not experience any losses associated with them.

Not only did we avoid those risky investment vehicles by following our "Safety before Liquidity before Yield" philosophy, we also have reduced our exposure to asset-backed commercial paper in the LGIP pools from 38% to just 1.4% as of November 30, 2007. Our total exposure in all pools has been reduced from 18.7% to 1.3%. We acted quickly and appropriately in reducing this exposure as the liquidity profile had changed for many of these traditionally safe assets as market participants indiscriminately stopped rolling this paper (even the high-quality names that we held) and sought the safety and liquidity of U.S. Treasury/Agency securities.

Further, we will continue to monitor the markets during this credit crunch with a constant eye for maintaining the safety of taxpayer dollars. We will continue to provide you the utmost transparency regarding the investment pools under our care. I am confident in our efforts to date in preserving your deposits and I thank you and your Investment Committees for your continued trust. If you have any questions please call me or any of my staff at 602-604-7800.

Sincerely

Dean

Dean Martin

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